

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE
Revised

House Bill 943
Ways and Means

(Delegate McIntosh, *et al.*)

Budget and Taxation

Baltimore City - Property Tax Equity - Study

This bill requires the Department of Legislative Services (DLS) to complete a study analyzing whether Baltimore City's property tax structure places an equitable burden on homeowners, renters, and commercial property owners. The study must examine (1) any factors that contribute to a differing property tax burden on homeowners, renters of converted row houses and single-family homes, and commercial property owners; (2) whether any of these factors create an undue burden on homeowners; and (3) if an undue burden on homeowners is found, what measures could be taken to alleviate the burden and create a more equitable property tax structure. DLS must submit a report of its findings and any recommendations to the Mayor and City Council of Baltimore City, as well as to the Baltimore City House Delegation and the Baltimore City Senators by December 31, 2015.

The bill takes effect June 1, 2014, and terminates June 30, 2016.

Fiscal Summary

State Effect: None. DLS can complete the property tax equity study and handle the reporting requirements with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: In reaching its conclusions DLS must consider the (1) feasibility of achieving property tax equity between residential and commercial properties when different valuation methods are used for commercial and residential properties; (2) accuracy and potential for manipulation of income capitalization percentages used to value commercial properties; (3) impact of tax-exempt property on Baltimore City's tax base and tax rate, including any implicit subsidy property tax exemptions may provide to persons who reside outside of Baltimore City; and (4) relationship between Baltimore City's relatively low income tax base and its relatively high reliance on property taxes for revenue. During the study, the State Department of Assessments and Taxation and the Baltimore City Department of Finance must provide promptly any information that DLS requests and otherwise cooperate fully with DLS.

Current Law: A well-defined statutory relationship exists between the State and local governments in the administration of the property tax system. While property tax revenues are a relatively minor revenue source to the State, the State has assumed responsibility for the valuation and assessment of property. Local governments, on the other hand, levy and collect property taxes. The State takeover of the valuation and assessment function was implemented to provide uniform and equitable assessments of property throughout the State, in compliance with the "uniformity clause" of the Maryland State Constitution.

Real property is valued and assessed once every three years by the State Department of Assessments and Taxation. No adjustments are made in the interim, except in certain cases including: (1) a zoning change; (2) a substantial change in property use; (3) extensive improvements to the property; or (4) a prior erroneous assessment. The assessor determines the current "full market value" of the property and any increase in value is phased in over a three-year period. Any decrease, however, is recognized immediately for assessment purposes.

Baltimore City's real property tax rate is \$2.248 per \$100 of assessment for fiscal 2014. The Baltimore City Homestead Tax Credit assessment cap is set at 4% for fiscal 2014 and 2015.

Background: The property tax is the primary local revenue source for county governments, accounting for 26.8% of total revenues in fiscal 2012, excluding debt proceeds. The reliance on property tax revenues ranges from 17.5% in Allegany County to 49.5% in Worcester County. In Baltimore City, 20.9% of local revenues come from the property tax. Property tax collections are affected by each county's property tax base and tax rate. Counties with a larger assessable base can collect relatively more tax revenues than jurisdictions with a smaller tax base. For example, Worcester County, with

its ocean resort property, has the highest per capita assessable base in fiscal 2014 at \$287,689 which is nearly three times the statewide average. Somerset County has the third lowest per capita assessable base at \$56,504 or half the statewide average. Due to its larger tax base, Worcester County is able to collect around four times more revenue per capita than neighboring Somerset County, even though Somerset County has a higher property tax rate. Baltimore City ranks second to last with a per capital assessable base of \$55,658, as shown in **Exhibit 1**.

The local property tax rate is established by each county, Baltimore City, or municipality expressed as an amount per \$100 of assessed value. The county property tax rate may be supplemented by special property tax levies for special districts. **Exhibit 2** shows county property tax rates, including appropriate countywide special tax rates, for fiscal 2005 through 2014.

Local property tax rates are a function of a jurisdiction's property tax base, assessment increases and statutory limits on annual assessment increases, public demand for governmental services, and other sources of revenues available to fund government programs. The larger the property tax base in a county, the more tax revenue that can be derived with an increase in the property tax rate.

As the demand and cost for governmental services increase, counties may increase property tax rates to generate the revenue to fund these services and programs. For example, as a jurisdiction becomes more urbanized, the demand for certain services such as police, fire protection, and utilities tends to increase. In addition, counties with relatively high costs of living must spend more than other jurisdictions to obtain the same level and quality of services. Consequently, unless other sources of revenue are available to fund these services, local tax rates could increase.

Local governments, however, can realize additional property tax revenue without changing tax rates if the assessable base grows. In addition, many jurisdictions are able to rely on alternative ways to generate revenues other than the property tax. For example, counties with large net taxable incomes can receive a significant amount of revenue through the local income tax, thereby offsetting the need to increase property tax rates.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore City, Department of Legislative Services

Fiscal Note History: First Reader - February 25, 2014
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Exhibit 1

County Assessable Base Measures for Fiscal 2014

<u>County</u>	<u>Population July 1, 2012</u>	<u>Assessable Base (\$ in Thousands)</u>	<u>Per Capita Assessable Base</u>	<u>Assessable Base Growth</u>	<u>County</u>	<u>Per Capita Assessable Base</u>	<u>County</u>	<u>Assessable Base Growth</u>
Allegany	74,012	\$3,910,750	\$52,839	-1.3%	1. Worcester	\$287,689	1. Montgomery	0.9%
Anne Arundel	550,488	76,405,438	138,796	0.1%	2. Talbot	232,214	2. Howard	0.6%
Baltimore City	621,342	34,582,451	55,658	-1.5%	3. Montgomery	163,924	3. Anne Arundel	0.1%
Baltimore	817,455	78,477,913	96,003	-2.8%	4. Garrett	161,529	4. Somerset	0.0%
Calvert	89,628	12,277,912	136,987	-2.2%	5. Queen Anne's	158,435	5. Garrett	-0.3%
Caroline	32,718	2,651,005	81,026	-5.7%	6. Kent	149,231	6. Frederick	-0.6%
Carroll	167,217	18,588,705	111,165	-1.4%	7. Howard	147,884	7. Harford	-0.8%
Cecil	101,696	9,657,230	94,962	-3.1%	8. Anne Arundel	138,796	8. St. Mary's	-1.1%
Charles	150,592	16,383,332	108,793	-1.9%	9. Calvert	136,987	9. Allegany	-1.3%
Dorchester	32,551	2,981,840	91,605	-4.4%	10. Carroll	111,165	10. Carroll	-1.4%
Frederick	239,582	25,734,580	107,414	-0.6%	11. St. Mary's	110,661	11. Kent	-1.5%
Garrett	29,854	4,822,283	161,529	-0.3%	12. Charles	108,793	12. Baltimore City	-1.5%
Harford	248,622	26,605,582	107,012	-0.8%	13. Frederick	107,414	13. Charles	-1.9%
Howard	299,430	44,280,928	147,884	0.6%	14. Harford	107,012	14. Calvert	-2.2%
Kent	20,191	3,013,117	149,231	-1.5%	15. Baltimore	96,003	15. Baltimore	-2.8%
Montgomery	1,004,709	164,696,351	163,924	0.9%	16. Cecil	94,962	16. Cecil	-3.1%
Prince George's	881,138	76,137,876	86,409	-3.9%	17. Dorchester	91,605	17. Washington	-3.1%
Queen Anne's	48,595	7,699,153	158,435	-4.1%	18. Prince George's	86,409	18. Prince George's	-3.9%
St. Mary's	108,987	12,060,567	110,661	-1.1%	19. Washington	83,260	19. Queen Anne's	-4.1%
Somerset	26,253	1,483,405	56,504	0.0%	20. Caroline	81,026	20. Dorchester	-4.4%
Talbot	38,098	8,846,903	232,214	-5.1%	21. Wicomico	62,702	21. Talbot	-5.1%
Washington	149,180	12,420,699	83,260	-3.1%	22. Somerset	56,504	22. Wicomico	-5.4%
Wicomico	100,647	6,310,794	62,702	-5.4%	23. Baltimore City	55,658	23. Caroline	-5.7%
Worcester	51,578	14,838,405	287,689	-5.9%	24. Allegany	52,839	24. Worcester	-5.9%
Statewide	5,884,563	\$664,867,219	\$112,985	-1.3%				

Source: State Department of Assessments and Taxation, Department of Legislative Services

Exhibit 2
County Real Property Tax Rates in Fiscal 2005-2014
(per \$100 of assessed value)

County	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Allegany	\$1.001	\$1.001	\$0.983	\$0.983	\$0.983	\$0.983	\$0.983	\$0.982	\$0.981	\$0.980
Anne Arundel	0.941	0.931	0.918	0.891	0.888	0.876	0.880	0.910	0.941	0.950
Baltimore City	2.328	2.308	2.288	2.268	2.268	2.268	2.268	2.268	2.268	2.248
Baltimore	1.115	1.115	1.100	1.100	1.100	1.100	1.100	1.100	1.100	1.100
Calvert	0.892	0.892	0.892	0.892	0.892	0.892	0.892	0.892	0.892	0.892
Caroline	0.952	0.910	0.870	0.870	0.870	0.870	0.870	0.870	0.890	0.940
Carroll	1.048	1.048	1.048	1.048	1.048	1.048	1.048	1.028	1.018	1.018
Cecil	0.980	0.980	0.960	0.960	0.960	0.940	0.915	0.940	0.991	0.991
Charles	1.026	1.026	1.026	1.026	1.026	1.026	1.026	1.067	1.121	1.205
Dorchester	0.930	0.920	0.896	0.896	0.896	0.896	0.896	0.976	0.976	0.976
Frederick	1.135	1.135	1.064	1.064	1.064	1.064	1.064	1.064	1.064	1.064
Garrett	1.036	1.000	1.000	1.000	1.000	0.990	0.990	0.990	0.990	0.990
Harford	1.092	1.082	1.082	1.082	1.082	1.064	1.042	1.042	1.042	1.042
Howard	1.170	1.170	1.140	1.150	1.150	1.150	1.150	1.150	1.190	1.190
Kent	1.012	0.992	0.972	0.972	0.972	0.972	1.022	1.022	1.022	1.022
Montgomery	1.009	0.967	0.916	0.916	0.915	0.916	0.915	0.959	1.003	1.021
Prince George's	1.319	1.319	1.319	1.319	1.319	1.319	1.319	1.319	1.319	1.319
Queen Anne's	0.926	0.870	0.800	0.770	0.770	0.770	0.767	0.847	0.847	0.847
St. Mary's	0.878	0.872	0.857	0.857	0.857	0.857	0.857	0.857	0.857	0.857
Somerset	1.010	0.990	0.940	0.940	0.920	0.900	0.884	0.884	0.884	0.915
Talbot	0.540	0.520	0.500	0.475	0.449	0.432	0.432	0.448	0.491	0.512
Washington	0.948	0.948	0.948	0.948	0.948	0.948	0.948	0.948	0.948	0.948
Wicomico	1.025	0.993	0.942	0.881	0.814	0.759	0.759	0.769	0.840	0.909
Worcester	0.730	0.730	0.700	0.700	0.700	0.700	0.700	0.700	0.770	0.770

Note: The rate in Charles, Frederick, Howard, Montgomery, and Prince George's counties reflect special rates for services not funded from the general county property tax rate.

Source: Department of Legislative Services